

Application of Pacific Gas and Electric Company for Adoption of Electric Revenue Requirements and Rates Associated with its 2017 Energy Resource Recovery Account (ERRA) and Generation Non-Bypassable Charges Forecast and Greenhouse Gas Forecast Revenue and Reconciliation.

**SONOMA CLEAN POWER AUTHORITY  
RESPONSE TO PG&E'S MOTION TO STRIKE  
TESTIMONY OF RICHARD MCCANN**

September 6, 2016

**BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA**

Application of Pacific Gas and Electric Company for  
Adoption of Electric Revenue Requirements and  
Rates Associated with its 2017 Energy Resource  
Recovery Account (ERRA) and Generation Non-  
Bypassable Charges Forecast and Greenhouse Gas  
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Application 16-06-003  
(Filed June 1, 2016)

**SONOMA CLEAN POWER AUTHORITY  
RESPONSE TO PG&E'S MOTION TO STRIKE  
TESTIMONY OF RICHARD MCCANN**

The Sonoma Clean Power Authority ("SCPA") submits this response to PG&E's Motion to Strike the Testimony of Richard McCann ("Testimony"). The Testimony was submitted in response to PG&E's proposed Power Charge Indifference Adjustment ("PCIA") for the calendar year beginning 2017.

**I. SONOMA CLEAN POWER AUTHORITY'S TESTIMONY PROVIDES  
USEFUL INFORMATION FOR THE DEVELOPMENT AND  
IMPLEMENTATION OF PCIA METHODOLOGY**

Like other community choice aggregators ("CCAs"), SCPA is faced with another significant proposed increase in the PCIA, this on top of the almost doubling of the PCIA authorized as a result of last year's ERRRA. These significant increases result from normal market fluctuations and also fundamental flaws in the way the PCIA is calculated, and in particular the mismatch between the short-term (one year) time period upon which the market price benchmark is calculated and the much longer-term periods (some 20 years

or more) of PG&E's generation contracts. The volatility of these charges threatens CCA customers with increased probability of rate shock.

Just as the interest rates on 30-year bonds are normally higher than interest rates on 1-year bonds, economic theory teaches that the average price for a commodity under a long-term contract generally will be higher than the price under a short-term contract. This reflects the fact that a long-term contract provides something of value to its holder – certainty of price in a fluctuating market. The current PCIA calculation wholly fails to recognize this fact, and results in the retention by PG&E and its bundled customers of the entire value of this certainty. This is not the “indifference” required by California law; instead it is transferring some of PG&E's hedging costs from bundled customers onto CCA and DA customers, with nothing in return.

Despite these flaws, the Commission has not yet opened a proceeding to reassess the PCIA calculation method. SCPA is hopeful that this is changing, as evidenced by the recent Commission decision on PCIA vintaging, which ordered SCPA and Southern California Edison to lead a workgroup on PCIA issues<sup>1</sup>, as well as the Commission's reopening of the original proceeding addressing issues relating to CCAs, which could provide a venue for a reevaluation of the PCIA calculation method.

Faced with this lack of venue for discussion of PCIA issues before the Commission, SCPA felt compelled to present some of its objections to the PCIA calculation method in this proceeding. The intent of this was to provide background on how the current methodology is constructed, and to identify how the PCIA could be

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<sup>1</sup> Proposed Decision issued on July 19, 2016 in A.14-05-024. Available online at: <http://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M166/K297/166297990.PDF>

constructed correctly if it were holistically evaluated. We feel this testimony is still germane to this proceeding even if PCIA policy is not re-evaluated. SCPA provided this background because PG&E has proposed a large increase in the PCIA which will have an adverse effect on SPCA and other CCAs, both existing and forming in the near future. As stated in the testimony:

In considering how to move forward, the Commission may want to avoid adopting a method today that could become volatile in the future. Rate stability has long been one of the Commission's primary objectives because ratepayers need consistent price signals to make beneficial long-term investments. Potential volatility undermines that objective. If the Commission believes that adopting a PCIA in this proceeding is likely to move in the wrong direction, then it may want to mollify any changes. (Page 2)

SCPA concedes that there are elements of necessary PCIA reform that may fall outside the scope designed by ALJ Tsen, including making the calculation of the PCIA more transparent, developing a possible "buy-out" of a CCA's PCIA obligation, or placing an outer limit on the time over which the PCIA may be assessed against CCA customers, but SCPA is not proposing any of those reforms in this Testimony. Regardless, SPCA has presented a compelling case as to why the Commission should consider how the PCIA will change in the future when adopting the PCIA in this proceeding.

As to the remaining issues discussed in the Testimony, SCPA has carefully considered how each issue falls within the scope of the ERRRA proceeding, if not directly applicable to the PCIA. Looking at each issue in turn:

- **Using levelized costs for PG&E utility-owned generation (UOG)** – The Commission has not provided guidance through any decisions on this issue. In fact, the most relevant available guidance calls for amortization at a level annual rate as discussed in the Testimony. (See pp. 10-12).
- **PG&E is purchasing fuel and energy at costs above the short-term energy market price** —This is a direct issue of prudence that affects all ratepayers, not just those in CCAs. PG&E has provided no justification for these out-of-the-money purchases, but can do so in its rebuttal.<sup>2</sup> SCPA has proposed two alternative mechanisms for allowing its ratepayers to avoid these costs. (See Page 12.) Other ratepayer advocates are free to propose their alternatives.
- **Updating the “going forward” costs for the Capacity Adder** —The first step of this process actually goes against SCPA’s economic interest by reducing the MPB. PG&E has simply made an error by overlooking the latest California Energy Commission report that the Commission has directed PG&E to use in Decision 11-12-018. (See Page 14.) But taking this process further reveals that the current method is not compliant with the objectives of Decisions 06-07-030 and 11-12-018 to use a metric that somehow reflects market conditions. As pointed out in SCPA’s Testimony, the decrease in the Capacity Adder from updated CEC data has no relationship to any changes in the resource adequacy (RA) market. (See pp. 15-17.) The Commission can choose to ignore this discrepancy in its

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<sup>2</sup> It is not SCPA’s duty to provide PG&E an opportunity to justify these extraordinary expenses through data responses by providing detailed data requests that lay out SCPA’s theses prior to the filing date for testimony.

current methodology, but it should do so knowing the full consequences of that decision, and SCPA's Testimony is an important part of establishing that record.

PG&E has not addressed a single one of these issues in its Motion to Strike.

PG&E has only a broad-based rejection based on a mischaracterization of the background portion of the Testimony, which does not include any reforms that are proposed in this proceeding. Striking this testimony would hide from the Commission and interested stakeholders the broader issues that should consider when making significant changes in rates. SCPA is trying to shed light and provide context. When the opportunity arises for SCPA to propose true reforms to the PCIA methodology, those reforms will be much broader and deeper than these superficial corrections to the current calculations in the 2017 Erra.

If the Testimony is stricken, SCPA encourages the Commission to open a new, comprehensive proceeding on the PCIA, following the completion of the SCPA-SCE workgroup process would be a reasonable approach. This will provide all interested stakeholders with something they have not had to date – the ability to present their concerns and issues about the PCIA in a comprehensive proceeding.

We thank the ALJ and the Commission for their consideration of these requests, and we look forward to working with PG&E and Commission staff to develop a new PCIA methodology that results in true “indifference” between CCA customers and bundled PG&E customers.

SCPA requests that the assigned ALJ deny PG&E's motion to strike the testimony of Richard McCann and that it be included in the record of this proceeding.

Dated: September 6, 2016

Respectfully submitted,

/s/ Steven S. Shupe

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